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UNCLAS SECTION 01 OF 02 ANKARA 000527

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TAGS: ECON EFIN TU
SUBJECT: TURKEY REVISES GDP UP SHARPLY, BUT NEGATIVE TREND
REMAINS

REF: ANKARA 473

ANKARA 00000527 001.2 OF 002

¶1. (SBU) Summary: Turkstat, the Turkish statistical agency, released a long-awaited GDP revision on March 8, increasing Turkey's 2006 GDP by 31.6%, and making upward revisions to all Turkish GDP calculations since 1998. Final 2007 GDP figures will be released on March 31, and the upward revision is estimated at 39.4%. The revision expands the size of the private sector by including modern sectors like internet services and leasing, as well as capturing more of the shadow economy through better methodology. With this revision, Turkey's 2007 GDP per capita is estimated to be USD 9,663, and it is expected to exceed USD 10,000 in 2008 (aided by a 4.5% reduction in Turkey's population from recent household survey). Turkey's 2007 debt-to-GDP ratio will fall from 39.4% to 29.5%, and its Current Account Deficit "shrinks" from 8.0% of GDP to 6.1%. The revision gives a more accurate picture of the Turkish economy, but it does not change any of Turkey's economic fundamentals nor the negative trend. It is not expected to result in a bond ratings upgrade, despite Minister Simsek's call for an upgrade in a March 12 press conference. The revision does, however, make Turkey's economy look comparatively more stable and prosperous than other emerging markets, which will be to Turkey's advantage as it competes to attract foreign investment and tries to make itself an attractive EU accession candidate. End summary.

What Has Changed

¶2. (U) Turkstat released its GDP revisions on March 8. The new data revises GDP calculations from 1998 to 2006, with revised 2007 data scheduled to be released on March 31. Analysts had expected an upward revision of 2006 GDP of between 5 and 40%, so the 31.6% revision came at the upper end of expectations. Turkstat has been working on this revision for nearly four years, in cooperation with Eurostat. This is Turkey's first GDP revision since 1990, and updates its statistical methodology from the 1968 OECD System of National Accounts method to the 1995 European System of Accounts (ESA 95) method. The base year has moved up from 1987 to 1998.

¶3. (U) The large GDP increase is the result of expanding data coverage to include new sectors (e.g., internet

services, leasing, private pension funds) and more of the shadow economy (particularly notable in manufacturing and construction), and using better statistical methodology and more recent survey data. The number of homes, for example, was revised up 38.1%, and the number of manufacturing businesses went up 146.3% (even as manufacturing's share of the economy dropped from 30% to 26%).

Chart A

	Old GDP (USD)	New GDP (USD)
2006 GDP	400 Bn	526.4 Bn.
2006 GDP per capita	5,480	7,500
2006 GDP Growth (%)	6.1	6.9
2007 GDP (estimated)	489.4 Bn.	682.1 Bn.
2007 GDP per capita (estimated)	6,625	9,663
2007 GDP growth (%)	5.0	5.0

¶4. (SBU) The jump in 2006 GDP per capita is 36% because the new series reflects not only the GDP increase but also the 4.5% population reduction that Turkstat announced in late February, from 73.9 million to 70.3 million, as a result of 2007 census and better methodology. It pushes Turkey up to into the "high middle income" class of countries by World Bank and European Union standards. Turkey looks comparatively much stronger economically. The estimated USD 9,663 GDP per capita figure for 2007 puts Turkey ahead of

emerging economic powers Brazil and Russia, and also ahead of recent EU entrants Bulgaria and Romania, on a per capita basis.

¶5. (SBU) Turkey's financial ratios generally look better following the revision, although the primary fiscal surplus for both 2006 and 2007 now appears to have been well below the IMF's 6.5% target:

Chart B

	Old GDP (USD)	New GDP (USD)
2006 Public Sector Debt/GDP %	45.0	34.2
2007 Public Sector Debt/GDP %	39.4	29.5
2006 Budget Balance (% GDP)	-0.7	-0.5
2006 Primary fiscal surplus (% GDP)	7.3	5.5
2007 Budget Balance (% GDP)	-2.1	-1.6
2007 Primary fiscal surplus (% GDP)	5.4	4.0
2006 Current Account Balance (% GDP)	-8.0	-6.1
2007 Current Account Balance (% GDP)	-7.8	-5.6

What Has Not Changed

¶6. (SBU) In a March 12 press conference, Treasury Minister Simsek complained that rating agencies should give Turkey a ratings upgrade as a result of the GDP revision. While it is

true that many of Turkey's macro ratios have improved, its economic fundamentals and negative trends have not. Even if the 2007 Current Account Deficit was really "only" 6.1% of GDP instead of 8%, the deficit was still USD 41.6 billion and it is still increasing, at a time when financing is much harder to come by. CPI inflation has not changed and remains over 8%, double the Central Bank's target. The GDP growth rate for 2007 remains at 5% (but 2006 GDP growth increased from 6.1% to 6.9%). Other financial ratios that rating agencies use in rating decisions -- the Current Account Balance/Current Account Receipts and External Debt/Current Account Receipts ratios -- also were not affected by the GDP revision, so it is not a surprise that agencies chose not to upgrade Turkey's current, below investment grade sovereign rating.

¶7. (SBU) The revision will, however, help Turkey in a comparative sense, making it look much stronger and more stable vis--vis other emerging market economies with whom it competes for investment funds. In the current global financial environment, this comparative strength is not a trivial advantage. It should also make Turkey a much more attractive and viable EU accession country. The increase in GDP per capita also is likely to make Turkey's domestic market more attractive for companies looking to expand their sales of goods and services to middle and upper income consumers.

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